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Memorandum

TO: Planning Committee DATE: July 10, 2009

FR: Executive Director

RE: Proposed New Transportation for Livable Communities (TLC) Program Guidelines – "TLC 2.0"

Background

For the past ten years, the Transportation for Livable Communities (TLC) program has served as one of the Bay Area's primary tools for fostering smart growth. By promoting compact, mixed-use development in existing communities, smart growth aims to accommodate a growing population by providing housing options, and reduced automobile dependency, while protecting open space and agricultural resources.

Staff conducted an evaluation of TLC in summer 2007, including completed TLC Planning, Housing Incentive Program (HIP), and the TLC Capital grants. It did not include TLC projects funded through the county Congestion Management Agencies (CMAs) or projects funded in the last cycle (awarded in 2005). Staff presented findings from the evaluation and preliminary recommendations to the Planning Committee in April 2008 (Attachment A).

Based on the TLC program evaluation, Reconnecting America's Center for Transit Oriented Development (CTOD) completed a white paper (a copy of the Executive Summary is attached) detailing various options and strategies for financing transit-oriented development in the Bay Area. The paper made several recommendations for revising the TLC program, including creating a flexible financing program that responds to different market conditions within the region. Staff presented these materials to the Planning Committee in September 2008.

Program Considerations

Picking up from where the TLC evaluation and TOD white paper left off last year, staff has been discussing proposed program changes with a small working group of Commissioners, our advisory committees, CMAs and other partner agencies. Staff believes the current program of spreading the funds around to various smaller streetscape and bicycle/pedestrian projects has served a useful purpose over the past 10 years to seed infill growth in the region. However, we think the time has come to change the program so that it can have a greater positive impact in those communities that have a demonstrated ability to plan and construct high intensity/quality development and that have taken on increased housing production numbers through the latest Regional Housing Needs Allocation process.

Based on these discussions, we have developed recommendations for four program elements of the TLC 2.0 program:

1. Incentivize development in PDAs
2. Grant size
3. Menu of eligible program categories (see Attachment B for further description)
4. Program structure

All of these program elements are also described in detail in Attachment C to this memorandum.

Funding
The Transportation 2035 Plan recommended a doubling of the current TLC program (about $27 million/year to about $60 million/year annualized over the life of the plan) including both Surface Transportation Program/Congestion Mitigation Air Quality (STP/CMAQ) funds and anticipated, unspecified new revenues. Funding levels for the program in the early years of programming will likely be lower due to de-escalation and other programming constraints. Actual TLC funding levels will be determined by federal STP/CMAQ Cycle programming policies to be adopted by the Commission later this year.

Next Steps
Staff will continue to discuss these proposals with our advisory committees and other partner agencies. We seek MTC Planning Committee input at your July meeting and approval in September 2009. We intend to have final guidelines approved by October/November 2009 to solicit Cycle 1 funding projects by the end of this calendar year.

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Steve Heminger

Attachments: Attachment A: Memo to Planning Committee dated 4/11/08
Attachment B: Proposed Program Options
Attachment C: Proposed Program Elements

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ATTACHMENT A: APRIL 2008 PLANNING COMMITTEE MATERIALS

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Memorandum

TO: Planning Committee DATE: April 11, 2008

FR: Deputy Executive Director, Operations W. I.

RE: **Transportation for Livable Communities (TLC) – Program Evaluation and Recommendations**

Background

For the past ten years, the Transportation for Livable Communities (TLC) program has served as one of region's primary tools for fostering smart growth. After the adoption of the Transportation/Land Use Connection Policy in 1996, the Commission began funding the TLC planning program in 1997. The program was expanded in 1998 to include a TLC capital grant program and in 2001 to include the Housing Incentive Program (HIP). Since then the program has remained largely unchanged, though a 2004 evaluation prompted changes in the TLC goals and the structure of HIP.

The TLC program is funded with federal Congestion Mitigation and Air Quality (CMAQ) and Transportation Enhancements (TE) dollars at a total of $27 million annually consistent with the Transportation 2030 Plan. This amount includes $9 million for each of the following: TLC Capital administered by MTC, TLC Capital administered by the CMAs, and HIP administered by MTC. A timeline of agency policy and funding decisions are outlined in Attachment A.

Staff conducted an evaluation of the TLC programs beginning in summer 2007 (this included TLC planning, HIP and TLC capital grants that have been constructed. It did not include TLC projects funded through the county CMAs). A copy of the report, *Ten Years of TLC: An Evaluation of MTC's Transportation for Livable Communities Program* is included with this memo.

Program Evaluation Key Findings

Staff contacted project sponsors, community groups associated with projects, as well as end users for the five case studies to survey their impressions of TLC projects and programs. Response rates for project sponsors and community groups were high, though it proved difficult to get many end-user surveys for the case studies. While specific TLC projects were challenging to evaluate due to their limited size and the way different jurisdictions collect information, it is possible to understand key trends in the program. The following key findings are a subset of those in the complete evaluation report:

TLC Planning Program

- The maximum size of a TLC Planning Grant is $75,000 and the average has been roughly $40,000.
- Pedestrian improvements have been the most popular form of capital improvements planned for (87%), while design standards (60%) have been the most common forms of policy changes pursued in TLC planning grants to date.
- TLC planning grant recipients described the community participation aspects of TLC planning grants as one of the most important benefits of the program.
- More than 55 percent of all proposed policy changes identified in TLC plans have also been implemented by the sponsoring jurisdictions.
- Given increased costs over the last ten years, TLC planning grants have more recently been viewed as too small to undertake significant planning processes that require substantial public involvement and project preparation.

Housing Incentive Program

- HIP has provided $27 million in funding associated with 38 housing projects across 20 jurisdictions in two funding cycles. This translates into rewards for the construction of 11,600 new housing units of which just over one-third are affordable.
- The availability of the HIP grant—according to surveyed sponsors—acted as an incentive in 37% of the projects.
- Roughly 70 % of the proposed housing projects qualified for HIP grants by issuing building permits on the project, the remaining 30 percent failed to meet the HIP deadlines.
- In those cases the grant did not act as an adequate incentive to approve the project, key challenges that could not be overcome include: market forces (35%), developer commitment (32%), developer financing (29%), city permitting (38%) and environmental review (22%).

TLC Capital Program

- TLC Capital projects encompass a wide variety of project types including bike lanes and paths, enhanced sidewalks, street trees, pedestrian scale lighting, bulb-outs, street furniture, bicycle parking, wayfinding signage, and traffic calming. Project sponsors rated TLC capital projects most effective at improving the one TLC goal that is most difficult to quantify – a community's sense of place and quality of life.
- While a majority of project sponsors and co-sponsors also noted that their grants helped improve a range of transportation choices, it was rated the lowest of the five TLC program goals.
- Historically TLC project sponsors have not been asked to provide before and after data that would allow for project evaluations. However, the most successful TLC capital projects appear – at least anecdotally – to have increased local pedestrian activity, created positive impacts on local businesses (as evidenced by lower vacancy rates and higher retail sales volumes in some TLC project areas), and served to facilitate nearby land use changes such as new housing and commercial development.
- Local jurisdictions – required to provide a minimum 11.5 % match under federal law – ultimately provided local funds from numerous sources averaging a 76% local match

across all projects surveyed. It is significant to note that TLC funds are often some of the first funds on the table and thus allow local staff to subsequently generate funding from other sources

Recommendations

Given the results of the TLC program evaluation, staff seeks input from the Committee and key stakeholders on the following recommendations:

(1) Tighten the connection between the TLC program and projects that directly support infill housing and transit-oriented development throughout the region by targeting a portion of TLC funds for locally-designated Priority Development Areas under the FOCUS program.

(2) Discontinue the TLC Planning Program and focus on larger land use planning grants through the Station Area Planning Program, combined with smaller, quick-response technical assistance grants to assist local jurisdictions with specific TOD-related challenges.

(3) Discontinue the Housing Incentive Program while still incorporating incentives to approve new housing by linking TLC awards to the planning and construction of new transit supportive development.

(4) Broaden TLC grant eligibility to include other infrastructure improvements including parking garages and local land parcel acquisition in order to maximize future development at key smart growth locations throughout the region.

(5) Provide larger TLC capital grants at more frequent intervals.

Next Steps

Staff is seeking the Committee's preliminary input on the above recommendations, recognizing that the overall program structure and funding levels for the TLC program will be the subject of the Commission's deliberations on the Transportation 2035 Plan in the coming months. Pending the Transportation 2035 Plan outcomes, staff will revise the TLC program goals, objectives and criteria for Commission approval later this year.

Ann Flemer

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Attachment 1: MTC's Smart Growth Timeline

	Adopted Policy	Funding Programs
1996	• Transportation/Land Use Connection Policy adopted	
1997		• TLC Planning Program created
1998		• TLC Capital Program created
2000	• ABAG, MTC and partner agencies begin a two-year effort to develop the Bay Area Smart Growth Vision	• Housing Incentives Program (HIP) pilot cycle launched
2001		• 2001 Regional Transportation Plan triples TLC funding to $27 million annually for HIP, regional TLC, and county-level TLC
2005	• Transit-Oriented Development Policy adopted, requiring that jurisdictions receiving MTC funding for transit extensions plan a minimum number of housing units along new corridors	• Station Area Planning Grant program created to support TOD policy
2007	• ABAG, MTC and partner agencies launch Focusing Our Vision (FOCUS), en effort to prioritize infill, mixed-use development near existing transit and jobs	• Station Area Planning Grant program expanded to include areas under FOCUS program

Attachment 2: Existing TLC Program Structure & Staff Recommendations

	Existing Program Structure	**Staff Recommendation**
TLC Planning Program	$500,000 per year	Discontinue/ fold into Station Area Planning Program
TLC Capital Program	$9 million per year distributed by MTC, $9 million per year distributed by CMAs	Continue TLC program, broaden grant eligibility
Housing Incentive Program	$9 million per year distributed by MTC	Discontinue/ fold housing emphasis into new elements of TLC capital program
Station Area Planning Program	2nd cycle of grants pending totaling $7.5 million – program funded through 2012	Continue Program through at least 2012 and re-evaluate
Technical Assistance	n/a	Start quick-response technical assistance program for local jurisdictions

ATTACHMENT B: TLC 2.0 – Program Options

Program Option	**Streetscapes (current program eligibility)**	**Non-transportation Infrastructure Improvements**	**Transportation Demand Management** (TransLink®, carshare, TOD parking, etc)	**Density Incentives** (Direct TOD funding Land Banking / Site Assembly
Grant or Loan	Grant	Grant or Loan	Grant or Loan	Grant or Loan
CMAQ /TE /STP	Yes	No	Yes	Only via transit operator joint development program
Example	Strengthen connection of existing program to new development in need of millions in new streetscapes such as San Jose midtown, Santa Rosa Railroad Sq. Ensure high quality projects.	San Leandro: sewer upgrades required for substantial TOD; fee structures and redevelopment funds are not capable of covering full expense. Plan in place for 2,500+ new housing units.	MacArthur BART: project replaces 300 of 600 surface spaces for BART in a priced parking structure that creates site for 675 new housing units TransLink® for TOD program expansion pending study results or support for a carshare vehicle for new or recent TOD residents)	Richmond approves 5-story, 60+ units/acre project (230 units) adjacent to BART & the transit village; developer unable to finance above 25 unit/acre project. City under pressure to deliver “something” on critical site San Bruno is interested in securing land near the re-located Caltrain station but is unable to fund the transaction. Similar stories to be found at numerous future transit stations.
Notes	Demand appears strong for this program element	Funding compatibility, high demand	Parking management is a critical barrier to TOD.	Holding title to land and land re-sale. Critical time to preserve key sites for future development.

ATTACHMENT C

Proposed Program Elements

Based on these discussions, we have developed recommendations for four program elements for the TLC 2.0 program:

(1) **Use of TLC funds to incentivize development in Priority Development Areas –** Tighten the connection between the TLC program and projects that directly support well planned, transit-oriented development throughout the region by targeting TLC funds to high-impact Priority Development Areas (PDAs) under the FOCUS program.

Staff recommendation: Only projects in planned or potential PDAs will be eligible for TLC funds. There are over 120 PDAs representing over 60 jurisdictions throughout the Bay Area.

Discussion with Partners: Most of our partners support this recommendation with the understanding that high-impact projects would mostly occur in planned and potential locally-designated PDAs. Over time, resources will be needed to fund planning to advance more PDAs to the "planned" category.

(2) **Grant size** – Based on the TLC evaluation and feedback from local jurisdictions, larger grants at more frequent intervals are desirable.

Staff recommendation: Increase grant awards from the current $500,000 - $3 million to a maximum of $6 million; we propose there be no grant minimum. Local communities would be expected to participate to their maximum extent possible in the funding of all projects.

Discussion with Partners: Comments focused on the possible need for a minimum grant size in order to ensure efficient use of federal funds which require substantial staff time to administer. Staff agrees with this principal and would leave it up to the CMAs to determine minimum grant size for the local TLC program element (see # 4 below).

(3) **Menu of eligible program categories** - The menu of eligible program categories, developed with input from city staff from planning, redevelopment, and public works, as well as market rate and non-profit developers, were recommended for consideration in the TOD White Paper previously reviewed with the MTC Planning Committee in September 2008. These include streetscapes (current program eligibility), as well as several new categories: non-transportation infrastructure, transportation demand management, and density incentives such as land banking or site assembly, and are illustrated in Attachment B. Not all of these options are eligible for federal funding available through the TLC Program. Funding exchanges would need to be arranged.

Staff recommendation: Build flexibility by allowing all categories included in Attachment B to be eligible for funding, with a goal of selecting the highest impact projects, based on intensity of existing and proposed adjacent development, proximity to transit service, and local needs. Project selection would also depend on project eligibility for STP/CMAQ funding or the availability of non-federal or other funding exchanges that could deliver the project.

Discussion with Partners: Most discussion centered on concerns about funding non-transportation infrastructure with transportation funds. Staff pointed out that these needs were identified by cities that are actively pursuing the development of TOD, but cannot fund them fully after participation from developers and city funds. It's difficult for staff to predict the types and number of eligible projects that might be able to take advantage of the expanded program eligibility. In that context, we recommend that the expanded TLC 2.0 program categories be eligible as an initial pilot for 1st Cycle funding to support local jurisdictions to implement TODs in a way they need most; based on the 1st Cycle outcomes, we would make a recommendation to the Commission on whether to continue the expanded program for the 2nd Cycle funding.

(4) **Program Structure -** Given the increase in program size, the spirit of funds between the regional and county-level programs should be reassessed; the program is currently administered jointly by MTC (2/3) and the CMAs (1/3).

Staff recommendation: Keep the current split – 2/3 of the program administered regionally by MTC and 1/3 administered at the county level by the CMAs. In addition, per the April 2008 recommendation, staff proposes to: 1) fold the HIP program into elements of the proposed new TLC capital program; 2) fold the TLC Planning program into the Station Area Planning program; and 3) create a new technical assistance program for TOD, fashioned after the current PTAP program.

Discussion with Partners: Many of the CMAs propose a reverse 2/3 County, 1/3 MTC program based on their closer relationship to cities and counties. MTC believes that in order to create a sufficient number of high impact grants that could approach the proposed $6 million grant maximum, a larger regional program level should be maintained. As discussed in issue #2 above, staff views the new TLC 2.0 as a regional pilot program, at least for Cycle 1 funding. Staff would revisit the program structure with the CMAs after assessing Cycle 1 outcomes.